Procedia of Economics and Business Administration

ISSN: 2392 – 8174,

ISSN-L: 2392 – 8166

Available online at www.icesba.eu

International Conference on Economic Sciences and Business Administration ICESBA

24-25 October 2014, Bucharest, Romania

From Performance Measurement to Strategic Management Model: Balanced Scorecard

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Abstract: In Today's competitive markets, one of the main conditions of the surviving of enterprises is the necessity to have effective performance management systems. Decisions must be taken by the management according to the performance of assets. In the transition from industrial society to information society, the presence of business structures have changed and the values of non-financial assets have increased in this period. So some systems have emerged based on intangible assets and to measure them instead of tangible assets and their measurements. With economic and technological development multi-dimensional evaluation in the business couldn't be sufficient. Performance evaluation methods can be applied in business with an integrated approach by its accordance with business strategy, linking to reward system and cause effects link established between performance measures. Balanced scorecard is one of the commonly used in measurement methods. While it was used for the first time in 1992 as a performance measurement tool today it has been used as a strategic management model besides its conventional uses. BSC contains customer perspective, internal perspective and learning and growth perspective besides financial perspective. Learning and growth perspective is determinant of other perspectives. In order to achieve the objectives set out in the financial perspective in other dimensions that need to be accomplished, is emphasized. Establishing a causal link between performance measures and targets how to achieve specified goals with strategy maps are described..

Keywords: Performance Measurement, Strategic Management, Balanced Scorecard, Performance Management Systems, Performance Of Assets, Intangible Assets

JEL classification: M19, M40

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1. Conceptual framework: Concepts relating to performance

There isn't a definition which agreed by academics as well as practitioners regard to the concept of performance and performance evaluation. According to Neely and others, although performance is rarely defined, it is a topic discussed very intensively (Neely et al., 2005).

1.1 Performance

Performance is a concept which determines obtained things quantitatively and qualitatively as result of intentional and planned event (Akal, 2005). On the other hand, performance can be described as ability of producing results aimed at certain objectives and priorities within a certain time (Akman et al., 2008). In the literature of business, performance of a business system can be described as result of specific working.

1.2. Organizational Performance Evaluation

Organizational performance evaluation; defines as an analytical process that of an organization evaluates along with generated products, services, and results according to predetermined goals and objectives (Güner & Memiş, 2007). In terms of different business functions, concept of organizational performance evaluation is able to express different meanings. For example, performance evaluation from the point of production function is set of criteria using both in order to measure activity of events and actions and to provide feedback to employees (Santos et al., 2007).

1.3. Performance Management

Performance management process basically describes that different system in management of performance how to be used by organization. These systems consist of not only developing strategy and observing but also consist of accounting management, target management and non-financial performance measurement; in addition it isn't limited with them (Bititci et al., 1997).

2. Importance of Evaluation of Organizational Performance for Business

''When you can measure what are you speaking about, and express it in numbers, you know something about it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind'' William Thompson (Lord Kelvin), 1824–1907.

2.1. Factors Effecting Organizational Performance Evaluation

Today's economic conditions and information age has revealed truth that business multi dimensionally have to manage their performance. We can summarize developments and changes demonstrating this result under seven headings (Neely, 1999).

Changing Work Life: In production systems along with information age, share of items which forming production cost occurred changes. Production transformed from labour-intensive to capital-intensive and technology-intensive (Şimşek & Nursoy, 2002).

Increasing Competition: Today's businesses which are operating in global markets are under a constant pressure about decreasing their cost and increasing their quality of goods and services (Şimşek & Nursoy, 2002).

Specific Development Initiatives: Many organizations in response to increasing competition have turned to development themes such as total quality management, lean production and worldwide production. An organization which adopts this new emerging vision has led to value-oriented production rather than cost-oriented production (Neely, 1999).

National and International Quality Awards: National and international institutions organizes various organizations which include awards in order to increase quality. However, in order to get determined award you must perform criteria which based on performance (Şimşek & Nursoy, 2002).

Changing Roles of Organizations: Accounting and finance departments in information age's businesses produces not only information required for external reporting but also produces other information required by management in order to perform activities (Akal, 2005).

Changing External Demand: Today's business faces with very different external demand now. The main demandant parties consist of laws, regulations, customer organizations, shareholders, public opinion, the media and civil society organizations (Şimşek & Nursoy, 2002).

Power of Information Technology: Technological advancements only did not provide easier way to obtain and analyse data, in addition it made possible to new opportunities with regard to data. For example, electronic sales systems produced opportunities for monitoring buying habits of individuals and also it offered to chance for monitoring result of discounting. At the same time, software packages allowed to use systems of balanced performance measurement (Akal, 2005).

2.2. Development of Organizational Performance Evaluation

Development of performance evaluation process can be handled in three periods as follows (Wilcox and Bourne, 2003);

1850-1925; The Development Process of Cost and Management Accounting: Although technology was important during this period, it generally were used to provide an effective method for the purpose of producing large quantities (Kaplan &Norton, 1999). Significant accounting techniques were developed and used as performance evaluation tool in this period. Basic cost and management accounting methods such as standard costing and budgeting techniques used today were developed and were used in this period (Wilcox & Bourne, 2003).

1974-1992; Developments in Multi-Dimensional Performance Evaluation Methods: Whereas products lifecycle was diminishing in this term, new products and services designed and works which improve benefits of theirs became important. While number of workers was decreasing in labour force, along with the effect of the competitive environment increased number of personnel who have analytical skills such as engineering, marketing, managerial and administrative (Güner & Memiş, 2007). Non-financial performance criteria as customer satisfaction, employee satisfaction, quality, market share, brand value in addition to financial criterions started to be used.

1992-2000; Strategy Maps, Business Models and Developments in Cause and Effect Diagram: Since the 1980s, in order to eliminate inadequacies of performance evaluation methods which based on financial criteria became evident multidimensional performance evaluation methods but these methods did not fulfil requirements of the information age. As a result, we needed to methods of covering the whole of the business and comply with business strategy and as a result of these seeking an appeared development which is the third stage of performance evaluation such as strategy maps, business models, and cause and effect diagrams (Wilcox & Bourne, 2003). In the last point where we stand now in historical process of performance evaluation methods; to remedy the deficiency of traditional performance evaluation methods emerged multidimensional and strategy-oriented performance evaluation methods. Figure 1 shows changes in the performance evaluation process by years.

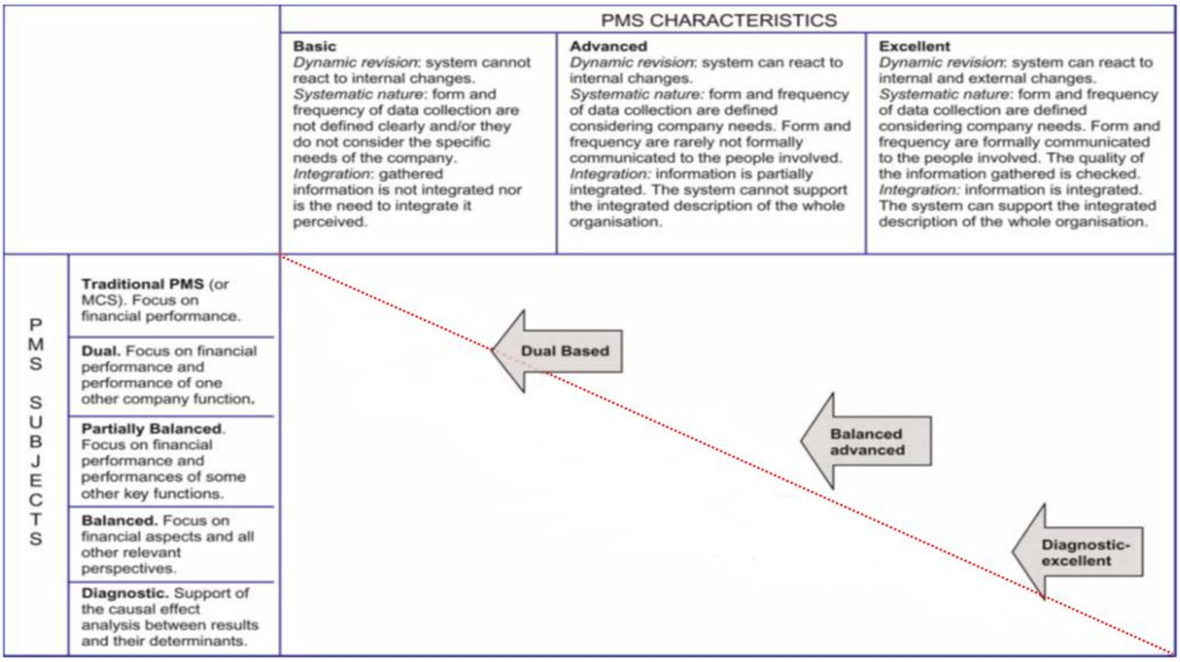

Figure 1: Performance Measurement Systems Typology.

Source: (Garengo, 2009)

3. Balanced Scorecard

3.1. Definition of Balanced Scorecard

Balanced Scorecard is comprehensive a strategic management model which foreseen to determine organization's vision and strategy (Kaplan & Norton, 1999; Virtanen, 2009; Niven, 2002). Initially Balanced Scorecard only were used as performance measurement method but if we are look at its wider meaning, it is management concept that organization's vision and strategy allow to spreading to base (Virtanen, 2009; Crabtree & De Busk, 2008).

3.2. Development of Balanced Scorecard

Phases of Balanced Scorecard's can be evaluated in three periods (Speckbacher et al., 20003; Lawrie & Cobbold, 2004).

3.2.1. First Generation Balanced Scorecard

In this period Balanced Scorecard has been developed to respond performance measurement methods which only concentrate on financial criteria, in addition it is performance of measurement methods which use non-financial criteria (Kaplan & Norton, 2008; Kaplan & Norton, 2001).

3.2.2. Second Generation Balanced Scorecard

The most important difference of second generation Balanced Scorecard in addition to in the first generation it used as lean performance measurement tool is that it defines connection between perfectives using cause-effect relations (Lawrie & Cobbold, 2004).

Second generation Balanced Scorecard has two different feature more than the first one. These are (Lawrie & Cobbold, 2004);

- Criteria which appear in perspectives are determined according to strategic objectives which predetermined.
- There are relation which connected with cause and effect relations between criteria and strategic objectives

According to Speckbacher and others (2003), the most important feature of this period is that tangible and intangible assets which owned by businesses using cause and effect relationship are connected to business strategy (Speckbacher et al., 2003).

3.2.3. Third Generation Balanced Scorecard

In this period, Balanced Scorecard is a strategic management system which by means of communication and action plans and reward systems finds application area. Balanced Scorecard is not only tool which defines business strategy but also it tells how to apply this strategy (Speckbacher et al., 2003). Kaplan and Norton who wrote book which name is "Strategy-Focused Organization" in 2001. They especially focused on this issue in their book. They added four management processes in second generation also they added five principles in third generation (Achterbergh et al., 2003).

- Strategy should be converted to operational expressions
- Organization should be regulated in accordance with its strategy
- Strategy should be brought everyone's daily work
- Strategy is seen as a continued period
- With the top management support changing should be keep alive

What should be the plan of action and how should be a reward system should be? These questions gained importance in this period. For each criterion were formed an expression which means target groups, to choose strategic objectives and target criteria. Thanks to target expressions, strategic links which be defined with cause and effect relationship can be seen and also we can test to have been achieved how much of objectives. Shortly, we can say that third-generation performance scorecards designed for putting into practice more functional and more strategic issues (Lawrie & Cobbold, 2004).

3.3. Perspectives of Performance Scorecard

Using targets and measurements which appears Balanced Scorecard, business performance can be handling from four different angles. These are; financial perspective, customer perspective, internal process perspective and learning and development perspective

- Financial Perspective: Our achievements to be accepted by our shareholders, what objectives are achieved by ours?
- Customer Perspective: To achieve our vision, how we should be perceived by customers?
- Internal Process Perspective: To satisfy our shareholders and customers, which in process we aim at excellence?
- Learning and Development Perspective: To arrive our vision, how a learning and development model we choose?

As seen, Balanced Scorecard not a model but it is a tool which aimed to give answer to above questions, also it should be unique for each business. At same time Balanced

Scorecard allows to be reflected strategy which is the most important determinant of organizational performance to business processes. The most important difference of Balanced Scorecard is that each activities of business must be compatible with business strategy. Therefore, business strategy is located centre of model. At first, for each perspective are determined objectives. Then, we decides what measures will be used, to achieve these objectives. Afterwards, in order to achieve the objectives, business find out what activities have to make. Perspectives which proposed by Kaplan and Norton are described below.

3.3.1. Financial Perspective

Balanced Scorecard maintains criteria which are traditional measures that used for decades; in addition it is a fact that financial criteria contain information about past criteria. Therefore traditional methods which based on financial measures used by industrial age businesses because achieve capacity utilization and customer relationships of these businesses to be successful; they had to have long-term investment. However traditional measures aren't enough to today's businesses which have aim of creating value which aimed at investing to customers, suppliers, employees, internal operational processes, technology and innovation (Kaplan & Norton, 1999). In financial perspective, we search for answer to question. This question is that how should be our image which seen by our shareholders? And generally, business objectives are determined on the axis with profitability, growth and shareholder value (Kaplan & Norton, 1992). Balanced Scorecard sees financial perspective as purpose of business (Kaplan & Norton, 2006). Financial objectives of different departments which located in business create Balanced Scorecard and Balanced Scorecard associate to business strategy. Financial objectives which located on Balanced Scorecard with this aspect focus on objectives and criteria of other perspectives. Every measure located in financial performance should be a part of cause and effect relation which play role in financial performance. Balanced Scorecard starts from a long-term financial objective to achieve these objectives needed financial transactions, customers, internal processes, people and systems (Kaplan & Norton, 1999).

3.3.2. Customer Perspective

Second perspective of Balanced Scorecard is customer perspective which search for answer to achieve our vision, how we are perceived by customers? Shareholder pressure on businesses to achieve better financial results in traditional methods of performance evaluation restrict to spending which made to improve new business products, processes, human resources, information technology, database and systems, customer and market. Cost accounting, these type reductions which happen in a short time perceives as an increase in income of business. In fact, these loss are stolen from own business resources and future resources. While these application which seen in short time are perceived as an improvement in the financial statements, in fact they can damage to business because of decreasing in customer loyalty and satisfaction in future (Kaplan & Norton, 1999). In this context, the Balanced Scorecard is perceived activities which not reflected on the balance sheet of business such as customer orientation, intellectual capital, new product, brand value, organizational learning capabilities, process improvement skills, improving internal control activities, etc. as factors that increase value of business. Therefore, with these features which happen in customer perspective increases in organizational performance and market value of business (Pirtini, 2010). Customer perspective in Balanced Scorecard allow to convert business's vision, mission and strategies to special purposes regarding customers and thus ensuring business is shared between all parties.

3.3.3. Internal Process Perspective

In the ınternal process perspective, for a business is determined what should be internal business processes which a business should be superior. The main success criteria of this perspective focus on internal processes which is the most important in achieving financial goals and customer satisfaction. Moreover improving an organization which learning internal processes and growth perspective is allowed to turn to essential functions and processes which can be obtained competitive advantages (Ensari, 2005). As a matter of fact, process which determined purpose and measurements of internal processes perspective reveals one of the most important difference between traditional performance evaluation systems and Balanced Scorecard. While traditional performance measurement systems focus on available responsibility centres and measurement system, performance scorecard brings performance evaluation system which include in purchasing, production, planning and control (Kaplan & Norton, 1999).

3.3.4. Learning and Development Perspective

Criteria and objectives of learning and development perspective is provider of other perspectives. In other words, the success of Balanced Scorecard depends on how accurately reflected objectives and criteria which located on financial perspective, customer perspective and internal processes perspective, to perspective of learning and development. Learning and development determines what level should be organizational climate to achieve the objectives which determined in other perspectives (Niven, 2002). Owing to the fact that businesses often focus on short-term financial results, they have hard time to maintain spending on employees, systems and institutional development. While Balanced Scorecard emphasizes importance of investments, also it emphasizes that it is not only limited to physical investments such as machinery and equipment but also investing on human, systems and methods too (Kaplan & Norton, 1999). Learning and development perspective determines organization's non-financial assets and their roles in strategy.

Conclusion

Performance Measurement Systems which handling results of business activity only from a financial point didn’t survive in today's economic environment. Additionally, performance measurement systems only which using non-financial measures apart from financial perspective didn’t full fill the needs of business either. Economic and technological developments revealed that performance in businesses should be measured as versatile. At the same time, it revealed that system in accordance with business strategy should become functional. Balanced Scorecard that has experienced all processes which occurred in performance measurement and evaluation system is a model, at same time it used as a management tool. Learning and development perspective is a determinant of other perspectives. Performance is evaluated with financial, customer, internal processes and learning and growth dimensions by basing on company's vision and strategy. In addition, objectives and criteria between dimensions are connected each other with cause and effect relationship. Financial dimension is the dimension of final performance which shown the result of all dimension. Balanced Scorecard play an important role in determining how a strategy will be implemented in business, who will implement this strategy and how this strategy will be implemented.

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